

Perspectives

Edition: April-June 2024

State of the financial market in Paraguay



ueno

Casa de Bolsa

With signs of stability

Following some uncertain and conflicting economic data during the first months of 2024, the global economy finally seems to show signs of more stable and steady growth. The European Central Bank cut the interest rates in early June and we believe the U.S. Federal Reserve (Fed) will soon follow, as it opts to lower rates to stimulate economic activity and mitigate risks, rather than maintain rates to manage inflation expectations and stabilize prices.

There is no doubt the economic trajectory for the latter half of the year will depend both on how economic growth indicators and inflation dynamics evolve as well as on central banks' monetary policy decisions and their impact on global markets.

After adjusting the January projection upwards, as of April the IMF projects worldwide growth at 3.2% for the current year, maintaining the dynamics of 2023.

In the USA, in a year in which the electoral context adds a factor of uncertainty, the start of the Fed's rate cut cycle has moved to the second half of the year; from the 3-4 cuts that were expected at the end of 2023, there is now one rate cut expected at the September meeting and a second cut at the December meeting.

The Fed stated that it would wait to see a sustainable disinflation trend towards the 2% objective (3.0% as of June). However, the message from the Fed's chairman expressing his concern about employment fuels expectations that the start of rate cuts will not be delayed; we note that the unemployment rate in June showed a slight increase (4.1%, above

expectations), while non-agricultural payrolls and wages grew above expectations (206K and 3.9%, respectively), but below what was recorded in May.

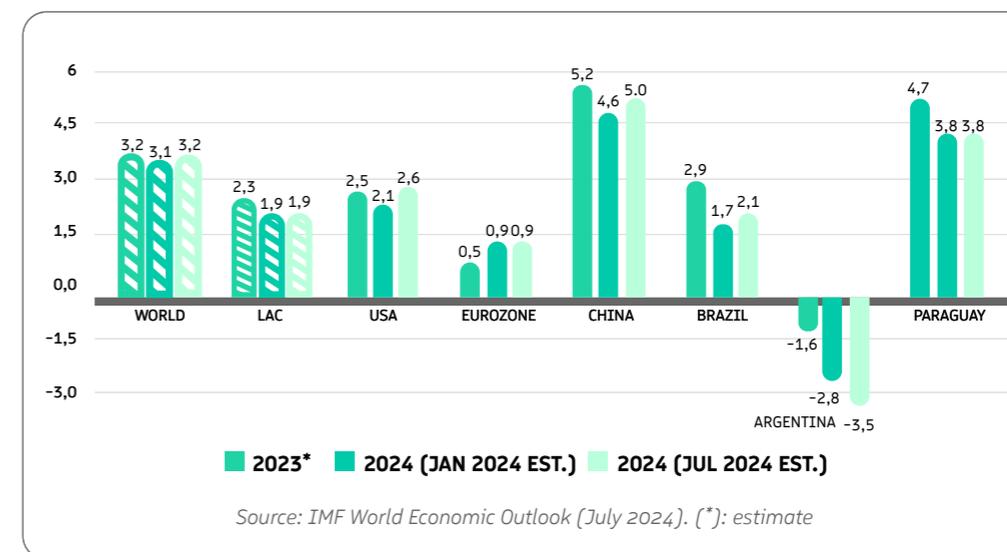
In the meantime, in the Euro Zone, the ECB took an atypical step in June when it went ahead of the Fed to begin its monetary relaxation cycle (-25 bp).

In the region, Brazil's growth prospects have improved, with the country's growth now estimated at 2.1% for 2024. However, due to inflation accelerating in June (4.2% y/y) and with a depreciation of real of 13.8% at the end of the first semester, the BCB's (Banco Central do Brasil) Monetary Policy Committee (Copom) has paused its rate reduction process.

In Argentina, with better-than-expected inflation results (4.6% in June), the delay in lifting the exchange rate "holding", the slow progress in structural reforms and the lack of announcement of a medium-term economic plan, are making the markets impatient.

At the beginning of the second semester, the parallel dollar exceeds \$1,450 and the exchange gap once again exceeds 50%, once again generating expectations of devaluation of the official dollar, and putting pressure on the country risk (above 1,400 bp), all in the context of a deep contraction of the activity level further adjusted to the downside in July (from -2.8% in April to -3.5% in July).

Graph 1. Level of activity (percentage changes, real GDP)



The global economy finally seems to show signs of stable and sustainable growth.



Local economic context

During the first half of this year, the Paraguayan economy showed signs of dynamism, making the case for what could be a stronger economic growth in 2024. The official projection was recently revised to maintain +3.8%, but with a downward correction in Hydroelectric and Construction sectors, offset due to greater dynamism expected in Manufacturing, Commerce and Other Services sectors.

In the first quarter, GDP increased 4.3%, and the monthly indicators of economic activity and sales indicate that this greater dynamism would be maintained (cumulative to May, IMAEP: +4.5%, IMAEP without agriculture or binationals: +6.5%, as of April, ECN: +8.5%). In contrast to 2023, it is the domestic demand that has driven growth in 2024. In Q1' 24, industrial (+5.5% y/y) and services sectors (+5.0% y/y), both labor intensive, were also the most dynamic.

Although 116.000 non-agricultural jobs were created in Q1 '24, the unemployment rate increased from 6.5% to 6.9% compared to Q1 '23 (although the sum of unemployment + underemployment fell from 10.2% to 9.8%).

In the context of strengthening domestic demand, supply shocks due to climatic factors that particularly impacted the prices of fruits and vegetables, accelerated inflation during the second quarter (3.6% as of March, 4.3% as of June).

Added to the fact that the monetary policy interest rate (MPR = 6.0%) was already at the neutral level, this

acceleration in prices has led the Paraguayan Central Bank (BCP) to pause its rate cuts since April. Considering that core inflation and other measures that exclude volatile prices remain below 4%, and that expectations on the monetary policy horizon remain anchored, the MPR is expected to remain stable.

Strengthening of the dollar in the international markets, negative shock in terms of trade, delays in exports due to expectations of higher soybean prices and decrease in the differential between local-USA rates, are factors that influenced an upward trend of the dollar in the local market, atypical of this quarter.

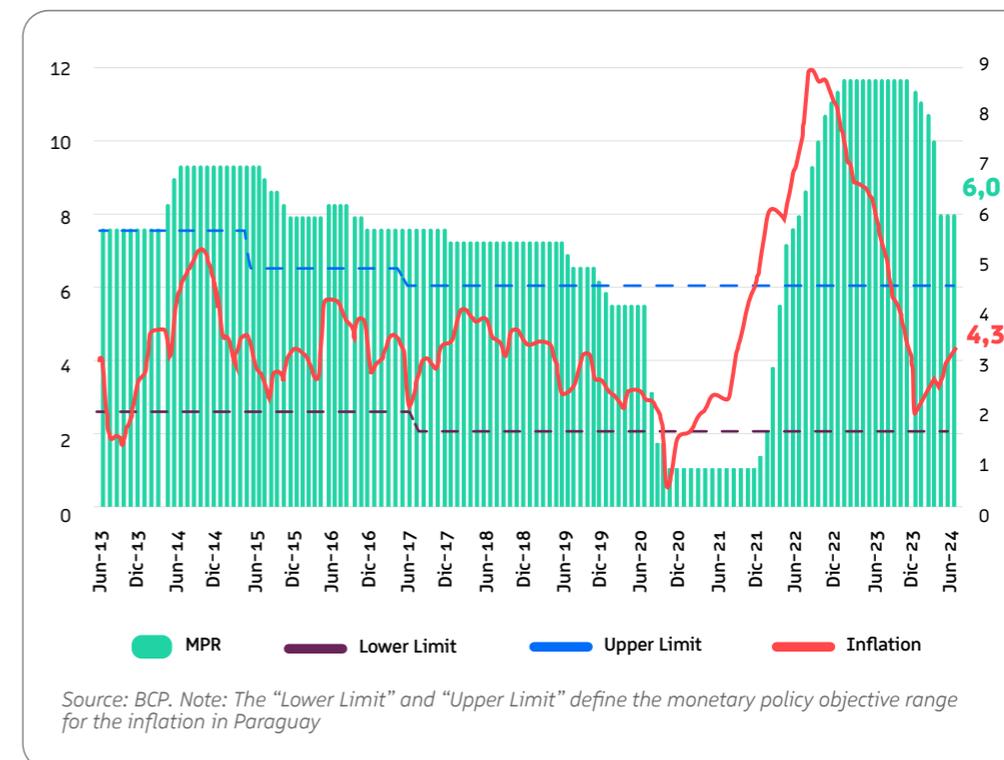
Considering the BCP's net sales to the financial sector, which between April and May reached USD 520 million, at the end of the first semester the guaraní registered an interannual depreciation of 4.1%, in line with what was observed at the regional level.

In June the exchange rate was already more stable, and at the end of the month international reserves exceeded by USD 536 million those of June 2023.

Despite the 11.8% increase in current spending between January and June of the current year compared to the same period in 2023, the greater dynamism of total income (+20.6%) has made it possible to reduce the accumulated deficit in the first half of the year from 1.1% in 2023 to 0.3% of GDP (from 3.5% to 3.2% the annualized deficit).

In July, Paraguay achieved investment grade rating by Moody's, paying the way for better and more comprehensive financing conditions and new growth opportunities for the country.

Graph 2. Internannual inflation (left axis, %) and Monetary Policy Rate (MPR) (right axis, %)



Paraguay's recent upgrade to investment grade by Moody's enhances the country's reputation in global financial markets and pays the way for more favorable financing options.

Market is going strong...

Trading Volumes

The Paraguayan stock market continues to show significant growth.

In the first six months of the year, the Electronic Negotiation System (SEN) of the BVA has already recorded trading volumes for a total of Gs. 21,723,902 million, which represents a year-on-year growth of 37.8% in the total amount traded in relation to the same period of 2023.

In addition, this volume has already exceeded the total volume traded in 2022.

The repo market represents the largest proportion of the volume traded in the SEN, 75.4% of the total.

This volume represents 62.6% of the total volume traded in the repo market throughout 2023 and 136.5% of what was traded in the same market during 2022, demonstrating the market preference for this instrument with regard to liquidity management.

Primary Placements

During the second quarter of 2024, many companies in various economic fields considered the stock market as a way to raise funds and support investment projects, managing to raise a total of Gs. 931,489 million.

This implies a total of Gs. 1,900,521 million captured throughout the first 6 months of the year.

The public, financial and services sectors were the largest fundraisers from investors, with 76.2% of the total amount captured during the first half of the year.

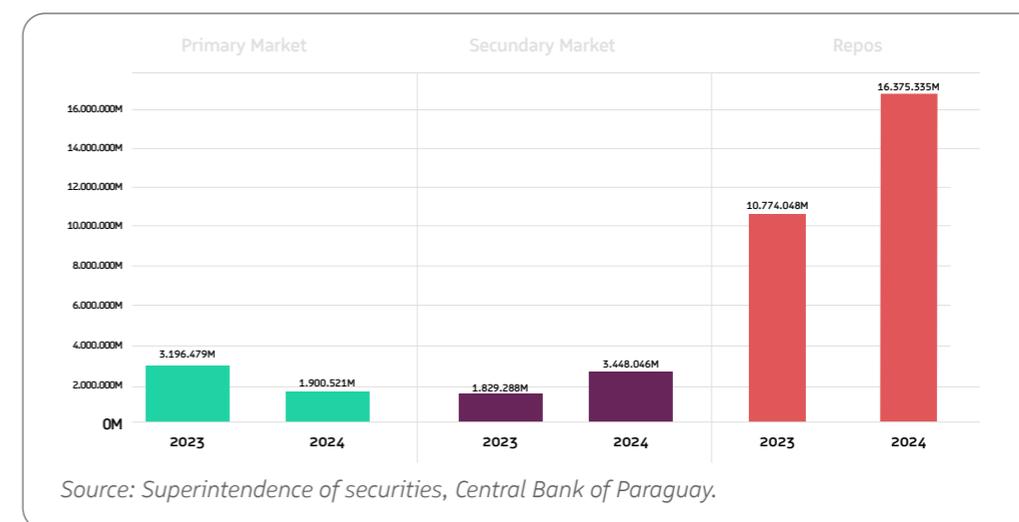
The commercial sector and the financial sector obtained the greatest diversification of investors, with a total of 417 and 319 respectively (Graph 4.).

Regarding the instruments issued, 91.4% of the total was through debt securities, 5.2% in shares and the remaining 3.4% in investment funds.

We highlight a greater participation of variable income securities, representing 8.9% of the total compared to 3.4% in the previous year.

“The public, financial and services sectors were the largest fundraisers from investors, with 76.2% of the total amount captured during the first half of the year.”

Graph 3. Trading Volume (SEN)



Graph 4. Primary Emissions



...offering opportunities

Sovereign Yield Curve

In a more stable economic panorama, the rates negotiated in the auctions of state securities have decreased compared to the same period of the previous year. Likewise, we observe a fluctuation in the slope of the curve, where longer maturities are already accompanied by a higher rate of return.

The Monetary Regulation Bills (LRM) exhibited the greatest variations in their yields. Specifically, short-term maturities showed the most pronounced fluctuations, with reductions reaching 2.10% in 1.5-year maturities and up to 2.63% in 2-month maturities compared to the same period of the previous year (Table 1).

Regarding the issuances of the Ministry of Economy and Finance (MEF), Treasury Bonds (BOTES) have also experienced downward fluctuations of around 1.15% compared to the same period of the previous year (Table 1). It is worth mentioning that in addition to what is presented in the Table, a 10-year series was placed with a rate of return of 7.60%.

We highlight that, for the second consecutive quarter, the MEF has chosen to hold the auction of these securities by the Central Bank of Paraguay instead of the Asunción Stock Exchange (BVA), which is reflected in the decrease in traded volumes. of the primary market in relation to the previous year.

Trades in the Stock Market

During the second quarter of the year, business in the primary and secondary securities markets continued to adjust to current economic conditions and fluctuations in interest rates.

The gap between the yields of both currencies has decreased since June 2023, mainly due to the decrease in the local reference rate (TPM), which has already recorded multiple cuts and has been maintained in recent months, while the reference rate for the dollar has remained unchanged.

In terms of purchase and sale transactions in the stock market, trades in fixed income securities in guaraníes, excluding BOTES, reached a total of USD 533 million (USD 280 million during Q2), with an average return in the market of 8.52% and average maturity of 6.81 years (Table 2).

On the other hand, bond trades in dollars reached around USD 124 million (USD 61 million during Q2), with an average market yield of 7.03% and average maturities of 4.53 years (Table 3).

When analyzing only the issuances in the primary market, the guaraní bonds presented average residual terms of 3.9 to 9.9 years (Table 5), with average rates by sector that ranged between 5.50% and exceeding 15,00%, depending on the level of credit risk (Table 4).

In contrast, issues in dollars had rates that ranged from 5.65% to 9.00%, with terms of 3.8 to 9.9 years.

Table 1. Returns on Government Bonds

INSTRUMENT	JUN 2023	JUN 2024	DIFFERENCE
LRM - 2 MONTH	8,53%	5,90%	-2,63%
LRM- 6 MONTH	8,59%	6,30%	-2,29%
LRM - 1 YEAR	8,61%	6,45%	-2,16%
LRM - 1,5 YEARS	8,65%	6,55%	-2,10%
BOTES - 5 YEARS	8,25%	7,10%	-1,15%
BOTES - 7 YEARS	8,63%	7,45%	-1,18%

*LRM: Monetary Regulation Bills: instruments issued by the Central Bank of Paraguay (Last Auction - March 2024).
 *BOTES: Public Treasury Bonds: instruments issued by the Ministry of Economy and Finance (Last Auction - March 2024).

Graph 5. Sovereign Yield Curve

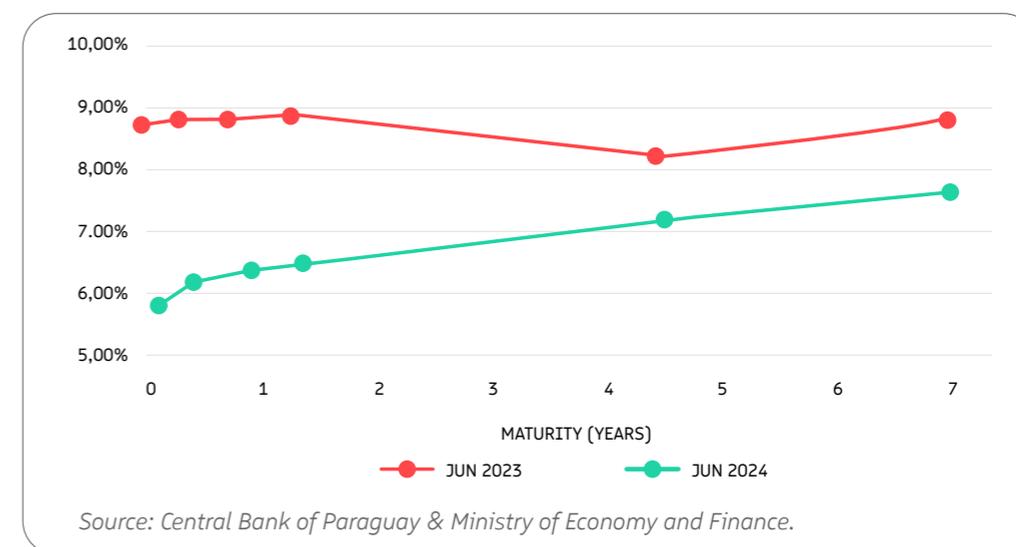


Table 2. Fixed Issues - Bond Characteristics by Risk Rating (Gs.) (April to June 2024)

	AVERAGES					AMOUNT (MIL. GS.)
	COUPON (%)	PRICE (\$)	YIELD (%)	MATURITY (YEARS)	DURATION (YEARS)	
Corporate, Financial, Municipal and Subordinated Bonds in Guaraníes						
Market	8,32	100,33	8,52	6,81	5,86	1.494.470
AAA	8,64	100,21	6,71	4,81	4,60	260.495
AA	8,52	102,16	8,07	5,21	4,81	84.904
A	7,88	100,11	8,32	8,05	6,75	934.887
BBB	11,94	100,71	11,74	4,51	3,93	207.275
BB	13,52	100,15	13,45	4,13	3,68	6.910

Table 3. Fixed Issues - Bond Characteristics by Risk Rating (USD) (April to June 2024)

	AVERAGES					AMOUNT (USD)
	COUPON (%)	PRICE (\$)	YIELD (%)	MATURITY (YEARS)	DURATION (YEARS)	
Corporate, Financial, Municipal and Subordinated Bonds in Dolars						
Market	6,99	99,75	7,03	4,53	4,27	59.818.372
AAA	5,72	100,03	5,69	5,65	5,40	6.703.234
AA	6,50	99,61	6,58	4,48	4,19	19.746.189
A	7,48	99,77	7,50	4,54	4,27	28.226.4438
BBB	7,21	100,11	7,81	3,32	3,17	4.532.382
BB	7,42	97,75	9,19	2,28	2,23	610.134

Source: Superintendency of Securities, Central Bank of Paraguay

Table 4. Coupon Rates (%) - Primary Emissions

DOLAR	AAA	AA	A	BBB	BB
AGRICULTURE					
COMMERCE		8,500			
FINANCE	5,650	6,467			
REAL ESTATE					9,35
SERVICES			8,450		
TECHNOLOGY				7,986	
GUARANÍ	AAA	AA	A	BBB	BB
AGRICULTURE				14,372	
COMMERCE			9,529	12,546	
CONSTRUCTION				12,75	
FINANCE	7,260	7,690	9,125		
REAL ESTATE				15,191	13,418
GOVERNMENT	5,500				
SERVICES			8,000		
TECHNOLOGY				11,000	

Source: Superintendency of Securities, Central Bank of Paraguay.

Table 5. Maturity (Years) - Primary Emissions

DOLAR	AAA	AA	A	BBB	BB
AGRICULTURE					
COMMERCE		9,973			
FINANCE	6000	4,670			
REAL ESTATE					3,29
SERVICES			3,769		
TECHNOLOGY				4,031	
GUARANÍ	AAA	AA	A	BBB	BB
AGRICULTURE				5,438	
COMMERCE			5,191	5,438	
CONSTRUCTION				3,59	
FINANCE	5,302	4,604	7,479		
REAL ESTATE				3,874	4,448
GOVERNMENT	5,003				
SERVICES			9,980		
TECHNOLOGY				9,744	

Source: Superintendency of Securities, Central Bank of Paraguay.

Important Information

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